

House Study Bill 35

SENATE/HOUSE FILE _____
BY (PROPOSED DEPARTMENT OF
REVENUE BILL)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act updating the Code references to the Internal Revenue Code
2 and including retroactive applicability and effective date
3 provisions.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
5 TLSB 1214DP 81
6 sc/pj/5

PAG LIN

1 1 Section 1. Section 15.335, subsection 4, unnumbered
1 2 paragraph 2, Code 2005, is amended to read as follows:
1 3 For purposes of this section, "Internal Revenue Code" means
1 4 the Internal Revenue Code in effect on January ~~± 31, 2004~~
1 5 2005.
1 6 Sec. 2. Section 15A.9, subsection 8, paragraph e,
1 7 unnumbered paragraph 2, Code 2005, is amended to read as
1 8 follows:
1 9 For purposes of this subsection, "Internal Revenue Code"
1 10 means the Internal Revenue Code in effect on January ~~± 31,~~
1 11 ~~2004~~ 2005.
1 12 Sec. 3. Section 422.3, subsection 5, Code 2005, is amended
1 13 to read as follows:
1 14 5. "Internal Revenue Code" means the Internal Revenue Code
1 15 of 1954, prior to the date of its redesignation as the
1 16 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
1 17 or means the Internal Revenue Code of 1986 as amended to and
1 18 including January ~~± 31, 2003, and as amended by Pub. L. No.~~
~~1 19 108-27, section 202, whichever is applicable 2005.~~
1 20 Sec. 4. Section 422.7, subsections 41 and 43, Code 2005,
1 21 are amended by striking the subsections.
1 22 Sec. 5. Section 422.9, subsection 2, paragraph k, Code
1 23 2005, is amended by striking the paragraph and inserting in
1 24 lieu thereof the following:
1 25 k. The deduction for state sales and use taxes is
1 26 allowable only if the taxpayer elected to deduct the state
1 27 sales and use taxes in lieu of state income taxes under
1 28 section 164 of the Internal Revenue Code. A deduction for
1 29 state sales and use taxes is not allowed if the taxpayer has
1 30 taken the deduction for state income taxes or claimed the
1 31 standard deduction under section 63 of the Internal Revenue
1 32 Code. This paragraph applies to taxable years beginning after
1 33 December 31, 2003, and before January 1, 2006.
1 34 Sec. 6. Section 422.10, subsection 3, unnumbered paragraph
1 35 2, Code 2005, is amended to read as follows:
2 1 For purposes of this section, "Internal Revenue Code" means
2 2 the Internal Revenue Code in effect on January ~~± 31, 2004~~
2 3 2005.
2 4 Sec. 7. Section 422.32, subsection 7, Code 2005, is
2 5 amended to read as follows:
2 6 7. "Internal Revenue Code" means the Internal Revenue Code
2 7 of 1954, prior to the date of its redesignation as the
2 8 Internal Revenue Code of 1986 by the Tax Reform Act of 1986,
2 9 or means the Internal Revenue Code of 1986 as amended to and
2 10 including January ~~± 31, 2003, and as amended by Pub. L. No.~~
~~2 11 108-27, section 202, whichever is applicable 2005.~~
2 12 Sec. 8. Section 422.33, subsection 5, paragraph d,
2 13 unnumbered paragraph 2, Code 2005, is amended to read as
2 14 follows:
2 15 For purposes of this subsection, "Internal Revenue Code"
2 16 means the Internal Revenue Code in effect on January ~~± 31,~~
2 17 ~~2004~~ 2005.
2 18 Sec. 9. Section 422.35, Code 2005, is amended by adding

2 19 the following new subsection:

2 20 NEW SUBSECTION. 20. Subtract the amount of foreign
2 21 dividend income, including subpart F income as defined in
2 22 section 952 of the Internal Revenue Code, based upon the
2 23 percentage of ownership as set forth in section 243 of the
2 24 Internal Revenue Code.

2 25 Sec. 10. RETROACTIVE APPLICABILITY. This Act applies
2 26 retroactively to January 1, 2003, for tax years beginning on
2 27 or after that date.

2 28 Sec. 11. EFFECTIVE DATE. This Act, being deemed of
2 29 immediate importance, takes effect upon enactment.

2 30 EXPLANATION

2 31 This bill updates the references to the Internal Revenue
2 32 Code to make the federal income tax revisions enacted by
2 33 Congress in 2003, 2004, and January 2005 applicable for Iowa
2 34 income tax purposes. This includes allowing an itemized
2 35 deduction for the 2004 tax year for charitable cash
3 1 contributions made during January 2005 for relief of victims
3 2 of the Indian ocean tsunami, in accordance with Pub. L. No.
3 3 109-1 enacted by Congress in January 2005.
3 4 Code sections 15.335, 15A.9, 422.10, and 422.33 are amended
3 5 to update the Iowa Code references to the state research
3 6 activities credit for individuals, corporations, corporations
3 7 in economic development areas, and corporations in quality
3 8 jobs enterprise zones to include the 2004 federal changes in
3 9 the research activities credit.

3 10 The bill strikes subsections 41 and 43 of Code section
3 11 422.7. These provisions were also enacted in the federal
3 12 Military Family Tax Relief Act of 2003 (Pub. L. No. 108-121).
3 13 Since this bill updates references to the Internal Revenue
3 14 Code for revisions made by Congress in 2003, these subsections
3 15 are no longer needed. Code section 422.9 is amended to strike
3 16 a corresponding reference to subsection 41.

3 17 The federal American Jobs Creation Act of 2004 (Pub. L. No.
3 18 108-357) allows individuals the option of deducting either
3 19 state income taxes or state sales and use taxes paid as an
3 20 itemized deduction for the 2004 and 2005 tax years. The bill
3 21 allows taxpayers to deduct state sales and use taxes paid as
3 22 an itemized deduction only if they deducted state sales and
3 23 use taxes as an itemized deduction on the federal return.

3 24 The bill also amends Code section 422.35 to provide for an
3 25 exclusion for foreign dividend income. This codifies current
3 26 practice and administrative rules of the Iowa department of
3 27 revenue based upon the United States supreme court decision in
3 28 Kraft General Foods, Inc. v. Iowa Department of Revenue and
3 29 Finance, 505 U.S. 71 (1992).

3 30 The bill is retroactively applicable to January 1, 2003,
3 31 for tax years beginning on or after that date.

3 32 The bill takes effect upon enactment.

3 33 LSB 1214DP 81

3 34 sc/pj/5.1